

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 IO-10 FEA-01 /064 W

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P R 112313Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 9068

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY KINGSTON

AMEMBASSY BOGOTA

AMEMBASSY LIMA

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY MEXICO

AMEMBASSY QUITO

C O N F I D E N T I A L CARACAS 6030

PASS EXIM BANK

E.O. 11652: GDS

TAGS: EFIN, VE

SUBJECT: VENEZUELAN INVESTMENT FUND, PLANS AND PROSPECTS

1. SUMMARY: ON JUNE 10, VENEZUELAN INVESTMENT FUND
PRESIDENT, CONSTANTINO QUERO MORALES, PAINTED A PESSIMISTIC
PICTURE OF PROSPECTS FOR FUND INCOME AND INDICATED THAT
THE DEMAND ON THE FUND'S RESOURCES FOR FINANCING INTERNAL
DEVELOPMENT PROJECTS WOULD MAKE FURTHER GOV COMMITMENTS
FOR LOANS TO OTHER COUNTIRES INADVISABLE. EMBASSY
BELIEVES QUERO'S VIEWS MAY BE OVERLY PESSIMISTIC
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THEY NEVERTHELESS INDICATE THAT VENEZUELA'S ROLE

AS A CAPITAL EXPORTING COUNTRY WILL SOON BE CURTAILED.
PROSPECTS FOR PARALLEL FINANCING WITH THE EXPORT-IMPORT
BANK IN THIRD COUNTRIES ARE THEREFORE POOR. END
SUMMARY.

2. DURING CALL BY AMBASSADOR AND ECONOMIC COUNSELOR
ON JUNE 10, DR. CONSTANTINO QUERO MORALES, MINISTER
OF STATE AND PRESIDENT OF THE VENEZUELAN INVESTMENT
FUND (FIV), OPENED THE CONVERSATION WITH A GENERAL
COMPLAINT ABOUT THE PROBLEM OF DEALING WITH THE PO-
LITICAL LEFT IN VENEZUELA. HE WAS PARTICULARLY CONCERNED
ABOUT OPPOSITION TO THE PETROLEUM REVERSION (NATIONALI-
ZATION) LAW NOW BEING CONSIDERED BY THE VENEZUELAN
CONGRESS. HE SAID THE PEREZ ADMINISTRATION WILL IN-
SIST ON A VERSION OF ARTICLE 5 OF THE LAW WHICH WILL
PERMIT MIXED GOVERNMENT-PRIVATE ENTERPRISES IN FURTHER
DEVELOPMENT OF THE INDUSTRY. HE NOTED THAT THE AD-
MINISTRATION HAS, MADE GREAT EFFORTS TO
OBTAIN A CONSENSUS ON QUESTIONS OF THIS TYPE AND
PREDICTED, THAT HENCEFORTH IT WILL USE
ITS MAJORITY IN THE CONGRESS WITH LESS HESITATION
WHEN IMPORTANT PROGRAMS ARE AT STAKE. QUERO
WAS PARTICULARLY DISTURBED BY LEFTIST OPPOSITION TO
MIXED GOVERNMENT-PRIVATE SECTOR DEVELOPMENT OF THE
PETROCHEMICAL INDUSTRY. HE SUGGESTED THAT THE AD-
MINISTRATION WOULD PAVE THE WAY NEXT YEAR FOR SUCH
COLLABORATION. DR. QUERO SAID THAT THE COUNTRY'S
FUTURE DEPENDS VERY HEAVILY ON A SMOOTH TRANSITION
OF THE PETROLEUM INDUSTRY TO GOVERNMENT HANDS AND ON
THE GOV'S EFFECTIVE MANAGEMENT OF THE INDUSTRY.

3. QUERO EXPRESSED CONSIDERABLE PESSIMISM ABOUT PROS-
PECTS FOR FIV INCOME IN 1975 AND 1976.
ACCORDING TO HIS CALCULATIONS, THE FUND WOULD RECEIVE
ONLY ABOUT BS. 8 BILLION THIS YEAR, AS AGAINST THE
BUDGETED PREDICTION OF BS. 13 BILLION. NEXT YEAR THE FUND
MIGHT RECEIVE AS LITTLE AS BS. 1.5 BILLION ACCORDING
TO HIS CALCULATIONS. THESE ESTIMATES DO NOT INCLUDE
INTEREST INCOME. THEY ASSUME A DECLINE IN PETROLEUM
PRODUCTION TO ABOUT 2.2 BILLION B/D NEXT YEAR. IN
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REPLY TO A QUESTION, DR. QUERO CONFIRMED THAT THE
GOV'S OTHER BUDGET REQUIREMENTS WOULD BE MET FIRST,
THEREBY REQUIRING THAT THE FUND ABSORB THE ENTIRE AN-
TICIPATED REDUCTION IN GOV REVENUES.

4. IN CONTRAST TO INCOME ESTIMATES, THE FUND'S
DISBURSEMENTS WILL ACCORDING TO QUERO, INCREASE SIGNI-
FICANTLY IN THE NEAR FUTURE BECAUSE OF VERY LARGE

INVESTMENT EXPENDITURES PROGRAMMED BY THE CORPORACION VENEZOLANA DEL GUAYANA (CVG) AND OTHER GOV INSTITUTIONS. IN ORDER TO MEET THESE REQUIREMENTS THE FUND MUST MAINTAIN ITS ASSETS IN A HIGHLY LIQUID STATE.

5. DR. QUERO SAID THAT, IN VIEW OF THESE PROJECTIONS, HE HAS COUNSELED THE GOV AGAINST MAKING FURTHER FINANCIAL COMMITMENTS OUTSIDE VENEZUELA. HE SAID HE BELIEVES FINANCE MINISTER HURTADO UNDERSTANDS THIS SITUATION AND SUPPORTS HIS VIEW.

6. THE AMBASSADOR REFERRED TO PAST EFFORTS OF THE U. S. EXIM BANK TO INTEREST THE FUND IN PARALLEL FINANCING OF DEVELOPMENT PROJECTS IN THIRD COUNTRIES. THE ECON COUNSELOR REVIEWED EX-IM CONTACTS WITH FINANCE MINISTER HURTADO AND OTHER OFFICIALS, CITED THE ADVANTAGE OF EXIM BANK'S EXPERTISE IN FINANCING OF THIS TYPE, AND BRIEFLY DESCRIBED THE TYPES OF COLLABORATION WHICH MIGHT BE POSSIBLE. A COPY OF CHAIRMAN CASEY'S LETTER OF JANUARY 22 TO FINANCE MINISTER HURTADO WAS LEFT WITH DR. QUERO.

7. DR. QUERO SAID THAT COLLABORATION ALONG THE LINES SUGGESTED BY THE EXIM BANK WOULD NOT BE POSSIBLE THIS YEAR BECAUSE OF THE FINANCIAL SITUATION HE HAD ALREADY DESCRIBED. HE SUGGESTED THAT IT MIGHT BE POSSIBLE FOR PARALLEL FINANCING TO BE OBTAINED FROM FUNDS WHICH THE FIV HAD ALREADY COMMITTED THROUGH THE IDB, THE PETROLEUM FINANCING ARRANGEMENT WITH CENTRAL AMERICA, AND REGIONAL DEVELOPMENT BANKS. THE AMBASSADOR EXPRESSED SOME DOUBT THAT ARRANGEMENTS OF THIS SORT WOULD BE FEASIBLE. DR. QUERO SUGGESTED THAT THE BEST PROSPECT FOR EXIM BANK COLLABORATION
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WITH VENEZUELA WOULD BE TO PARTICIPATE IN FINANCING VENEZUELAN DEVELOPMENT PROJECTS. HE SAID VENEZUELA WOULD NEED SUBSTANTIAL AMOUNTS OF FOREIGN FINANCING OF THIS TYPE TO CARRY OUT ITS LARGE SCALE INVESTMENT PLANS. HE SAID THAT HE WOULD BE TALKING TO CVG OFFICIALS LATER IN THE WEEK ABOUT DEVELOPMENT PLANS AND WOULD SUGGEST THAT THEY GIVE SERIOUS CONSIDERATION TO EXTERNAL FINANCING OF THIS TYPE. SUCH ARRANGEMENTS WOULD RELIEVE THE FIV OF THE TOTAL BURDEN FOR FINANCING THE PROGRAM. DR. QUERO SAID THAT HE WOULD INFORM THE EMBASSY OF ANY DEVELOPMENTS.

8. WHEN ASKED ABOUT HIS FUTURE PLANS, DR. QUERO SAID THAT HE HAD COMMITTED HIMSELF TO STAY IN THE GOVERNMENT

ONLY ONE YEAR. THAT PERIOD HAS NOW EXPIRED, BUT HE HAS BEEN ASKED TO STAY ON. HE EXPRESSED A STRONG DESIRE, HOWEVER, TO RETURN TO HIS WORK AT THE BANCO UNION. QUERO SAID PREVIOUS VACANCIES IN THE STAFF AND BOARD OF DIRECTORS OF THE FIV HAVE BEEN FILLED AND THE PERSONNEL SITUATION IS NOW STABILIZED. HE SAID THE NEW MANAGING DIRECTOR OF THE FUND, HERBERTO URDANETA, WOULD BE ARRIVING FROM THE IDB WITHIN A FEW DAYS TO TAKE UP HIS DUTIES.

9. COMMENT: DR. QUERO'S BITTERNESS OVER LEFTIST OBSTRUCTION OF GOV PLANS FOR STATE-PRIVATE SECTOR COLLABORATION IN DEVELOPING THE PETROLEUM AND PETRO-CHEMICAL INDUSTRIES IS UNDOUBTEDLY INFLUENCED BY THE PERSONAL ATTACKS TO WHICH HE HAS BEEN SUBJECTED BECAUSE OF ALLEGED CORRUPTION IN HIS PAST MANAGEMENT OF THE AGRICULTURAL MARKETING CORPORATION. ALSO, ALTHOUGH QUERO APPEARS TO ENJOY THE FULL CONFIDENCE OF PRESIDENT PEREZ, HE IS ORIENTED BASICALLY TOWARDS THE PRIVATE SECTOR AND OBVIOUSLY WOULD LIKE TO RETURN THERE.

10. QUERO'S VIEW OF PROSPECTS FOR FIV REVENUES AND THE ACCELERATED USE OF THE FUND'S ASSETS FOR DEVELOPMENT EXPENDITURES MAY REFLECT HIS CONSERVATISM AS A BANKER AND BUSINESSMAN OF LONG EXPERIENCE. AND ARE, IN FACT, CONSIDERABLY MORE CONFIDENTIAL

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PESSIMISTIC THAN THOSE EXPRESSED BY OTHER GOV SOURCES. QUERO'S COMMENT THAT THE FUND WOULD BE REQUIRED TO ABSORB ANY REDUCTION IN REVENUES CONFIRM THE EMBASSY'S UNDERSTANDING FROM OTHER SOURCES. HIS VIEWS DO, IN ANY CASE, INDICATE THAT VENEZUELA'S ROLE AS A CAPITAL EXPORTING COUNTRY IS LIKELY TO BE CURTAILED MUCH SOONER THAN ORIGINALLY ANTICIPATED.

11.THERE IS OBVIOUSLY LITTLE PROSPECT THAT THE PROPOSAL OF THE EXIM BANK FOR DIRECT COLLABORATION WITH THE FIV WILL PROSPER, AT LEAST DURING THIS YEAR. WE ARE NOT CLEAR AS TO THE FEASIBILITY OF QUERO'S SUGGESTION THAT EXIM MIGHT ENTER INTO ARRANGEMENTS WITH ONE OR MORE OF THE FINANCING FACILITIES THE FIV HAS ALREADY ESTABLISHED. WE ASSUME THAT IS NOT WHAT THE BANK HAS IN MIND, BUT WOULD APPRECIATE EX-IM'S COMMENTS ON THE POINT.
SHLAUDEMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NATIONALIZATION, DIPLOMATIC DISCUSSIONS, INVESTMENT PROGRAMS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CARACA06030
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750204-0334
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750658/aaaacami.tel
Line Count: 218
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 03 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 SEP 2003 by BoyleJA>; APPROVED <19 DEC 2003 by woolfhd>; APPROVED <19 DEC 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VENEZUELAN INVESTMENT FUND, PLANS AND PROSPECTS
TAGS: EFIN, EINV, VE, (QUERO MORALES, CONSTANTINO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006